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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002833

SIPDIS

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [EINV](#) [EAID](#) [PREL](#) [IZ](#)  
SUBJECT: IRAQ OIL LEGISLATION, THE ROAD AHEAD: DELAYS AND  
BUMPY ROADS

BAGHDAD 00002833 001.2 OF 002

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BAGHDAD 00002833 002 OF 002

Council of Ministers (cabinet) -- is what originally stalled  
passage of the Oil and Gas Law.

Revenue Sharing Law Simplified; KRG's Share in Question?  
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15. (C) Vice-Chair Hadi agreed with an Embassy proposal that  
the Law of Financial Resources (aka the "Revenue Sharing  
Law") could and should be simplified by stripping out  
portions that conflict with, or are redundant to, the  
existing Iraqi Financial Management Law. He also said the  
temporary concession that currently provides the KRG a 17  
percent share of budgeted expenditures would expire after  
this year; the KRG's share would then revert to the original  
agreement of 12.9 percent, which he believes more closely  
matches the KRG's population as a share of the total  
population.

16. (C) If the temporary agreement on a 17 percent share is  
rolled back by parliament in future budgets, the KRG might  
need to make concessions on hydrocarbons legislation or other  
political priorities in order to regain that share. The KRG  
also has a strong incentive to push for passage of the Law of  
Financial Resources to lock in the higher 17 percent share.  
Both sides agree that the percentage will be adjusted after  
an official census, which is currently scheduled for October  
2010.

Dispute over Federalism, DIBs, and Oil Legislation  
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17. (C) Vice-Chair Hadi lamented that the central government  
and the KRG cannot agree on whether to discuss hydrocarbons  
legislation or DIBs first. He said the central government  
wants to discuss the legislation first, while the KRG insists  
on discussing DIBs first. Chair Balo adamantly stated that  
the current dispute between the central government and the

KRG over hydrocarbons legislation is part of a larger debate over the shape of federalism. He expressed hope that the USG would facilitate discussions to help resolve the dispute, but said the KRG wanted to wait until the new central government was formed after the January national elections. In a similar vein, Vice-Chair Hadi said he hoped the USG could help facilitate passage of the hydrocarbons legislation. (Comment: Asking the USG to intervene to help one side or the other see the light is a familiar theme. End Comment.)

18. (C) Comment: The KRG continues to seek to create facts on the ground, confident that it can develop the Kurdistan region's oil sector without central government assistance or approval. Private conversations with KRG Minister of Natural Resources Hawrami suggest that the KRG is largely unconcerned about the fate of hydrocarbons legislation. The central government, on the other hand, sees the legislation as necessary to improving investment conditions in Iraq's oil sector. The GOI appears to want the hydrocarbons laws more than the KRG; the KRG seems content to block progress on the legislation, using it as leverage in negotiations over DIBs and other issues it values. Personalities also play a role -- Hawrami is loathe to make any concessions to Oil Minister Hussain Shahrastani, whom he dislikes and vilifies at seemingly every opportunity.

19. (C) Neither Chair Balo nor Vice-Chair Hadi offered thoughts on how to prepare the hydrocarbons legislation for early passage during the next session of parliament. The legislation appears to have been linked to GOI-KRG tensions over central government authority versus a more decentralized Qover central government authority versus a more decentralized federal model. We will continue to seek opportunities to provide technical assistance and other advice -- encouraging key officials to examine successful national oil companies in other countries and to adopt best practices in drafting the Oil and Gas Law and the INOC Reconstitution Law -- to prepare for more meaningful debate down the road. We will continue to press both sides to reopen a discussion of the four annexes to the Oil and Gas Law, but it is increasingly clear that serious discussion is unlikely until the new government is formed next year. End Comment.  
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